

## Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W  
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R 041200Z AUG 76  
FM AMEMBASSY PRAGUE  
TO SECSTATE WASHDC 758

C O N F I D E N T I A L SECTION 1 OF 2 PRAGUE 2238

EXDIS

E.O. 11652: GDS  
TAGS: PFOR, EFIN, CZ  
SUBJECT: GOLD/CLOAMIS QUESTION -- NEXT STEPS

FROM AMBASSADOR BYRNE FOR ASST SEC HARTMAN

REF: PRAGUE 2163

SUMMARY: IN WAKE OF PRIMIN STROUGAL'S JULY 27 REQUEST (REFTEL) THAT DISCUSSION OF CLAIMS/GOLD QUESTION BE MOVED INTO OFFICIAL CHANNELS WITH US REPRESENTATION HENCEFORTH BY DEPT OF STATE, WE OFFER THE FOLLOWING VIEWS FROM PRAGUE ON:

1. THE GOC APPROACH TO NEGOTIATIONS;
2. CLARIFYING AMOUNT AND MODALITIES OF CLAIMS PAYMENT;
3. THE ISSUE OF SEPARATING A CLAIMS/GOLD SETTLEMENT FROM A "PACKAGE DEAL" INCLUDING MFN;
4. TIMING OF NEXT STEPS; AND
5. ONGOING CONTACTS WITH SCOTT.

WE THINK CZECHOSLOVAKS ARE READY TO RESUME TALKS, IF USG CAN PROVIDE ASSURANCES THAT CONGRESS WILL CONCUR THIS TIME IN FINAL SETTLEMENT OF CLAMIS AND IF GOC ACHIEVES PROGRESS IN GAINING MFN. WE BELIEVE CLARIFICATION IS NEEDED SOON AS TO WHETHER SENATOR LONG AND HIS COLLEAGUES REGARD \$32 MILLION AS ABSOLUTE MINIMUM AND WHETHER REPAYMENT MUST BE IN LUMP SUM. WHILE CZECHOSLOVAKS CLEARLY PREFER "PACKAGE DEAL" APPROACH, WE THINK THEY MAY RELUCTANTLY NONETHELESS GO ALONG WITH A SEPARATE CLAIMS/GOLD SETTLEMENT. WE SEE THE TIME RIPE TO REOPEN GOVT-TO-GOVT TALKS IN NEAR FUTURE, PERHAPS IN SEPTEMBER. AND WE BELIEVE IT IMPORTANT TO REMAIN IN TOUCH WITH SCOTT AT LEAST UNTIL FORMAL NEGOTIATIONS ARE WELL UNDER WAY. END SUMMARY.

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1. GOC APPROACH TO NEGOTIATIONS: ON BASIS OF DISCUSSION HERE, ESPECIALLY MY MEETING WITH STROUGAL, WE BELIEVE CZECHOSLOVAKS ARE PREPARED TO RENEGOTIATE THE 1974 CLAIMS/GOLD AGREEMENT, IF TWO CONDITIONS ARE MET: FIRST, THAT US SIDE PROVIDES REASONABLE ASSURANCES OF CONGRESSIONAL ACCEPTANCE OF NEW AGREEMENT PRIOR TO INITIALLING; AND SECONDLY, THAT NEGOTIATIONS INCLUDE SERIOUS DISCUSSION OF MFN AS WELL AS SUCCESS IN LINING UP SUPPORT OF SENATORS LONG AND GRAVEL AND OTHER SENATORS FOR ACTUALLY GRANTING MFN TO CZECHOSLOVAKIA FOLLOWING FUTURE NEGOTIATIONS OF US-GOC TRADE AGREEMENT.

2. AMOUNT AND MODALITIES OF CLAIMS SETTLEMENT: (A) IT SEEMS TO US THAT WE MUST BEGIN CONSIDERATION OF RESUMING NEGOTIATIONS WITH SCOTT PROPOSAL AT CENTER STAGE AND TRY TO SOUND OUT POSSIBILITIES OF MAKING THAT PROPOSAL -- I.W., \$32 MILLION IN LUMP SUM PAYMENT--NEGOTIABLE HERE. I STATED AS EMPHATICALLY AS POSSIBLE TO STROUGAL THAT I SAW NO PROSPECT OF THE SENATE'S ACCEPTING LESS THAN FIFTY PERCENT OF OUR CLAIM. WE WILL CONTINUE TO TAKE THIS POSITION. HOWEVER, WE THINK IT IS OF FUNDAMENTAL IMPORTANCE TO FIND A WAY TO SOUND OUT SENATOR LONG, PERHAPS INDIRECTLY THROUGH HIS STAFF AIDES, AS TO WHETHER \$32 MILLION IS INDEED AN IRREDUCIBLE MINIMUM.

(B) SHOULD THE DEPARTMENT CONSIDER SETTLEMENT OF THIS ISSUE IMPORTANT ENOUGH MEASURED AGAINST THE POSSIBLE CONSEQUENCES CONNECTED WITH JEOPARDIZING THE SUPPORT OF CERTAIN SENATORS, COMPROMISE OF THE SCOTT PROPOSALS MAY PROVE NECESSARY. THE DEPARTMENT SHOULD THEN CONSIDER DISCUSSING WITH SENATOR LONG'S STAFF (MR. BEST, IN PARTICULAR) THE POSSIBILITY OF USING A 50 PERCENT FORMULA APPLIED TO OVERALL CLAIM OF \$72 MILLION, LEAVING 36 MILLION FROM WHICH WE MIGHT THEN DEDUCT OVER \$8 MILLION COMPENSATION FROM THE ALREADY-EXPROPRIATED STEEL MILL, THUS LEADING TO A FINAL SETTLEMENT OF APPROXIMATELY \$28 MILLION? ALSO, WE THINK THE SENATOR'S STAFF SHOULD BE APPROACHED ABOUT REPAYMENT OF CLAIMS IN INSTALLMENTS OVER PERHAPS THREE YEARS INSTEAD OF LUMISUM -- ESPECIALLY IF THE SENATOR ADAMANTLY INSISTS ON A SETTLEMENT OF \$32 MILLION. WE BELIEVE INSTALLMENTS WOULD BE MANIFESTLY EASIER FOR PRAGUE TO ACCEPT AND WOULD PERHAPS HELP CZECHOSLOVAKS SAVE FACE IN REVISING THE 1974 AGREEMENT. WE BELIEVE IT IMPORTANT TO CLEAR THE AIR WITH THE SENATE ON THESE CONFIDENTIAL

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PROBLEMS IN ORDER TO BE IN A POSITION TO GIVE GOC LEADERSHIP REASONABLE ASSURANCES OF SENATE APPROVAL BEFORE YET ANOTHER INITIALLING CEREMONY. PRAGUE CAN BE EXPECTED TO REMAIN HYPER-SENSITIVE ON THIS QUESTION OF ASSURANCES.

3. SEPARATING CLAIMS/GOLD ISSUE FROM MFN: OBVIOUSLY, CZECHOSLOVAKS WOULD LIKE TO OBTAIN MFN AS SOON AS POSSIBLE AND WOULD PREFER TO NEGOTIATE A "PACKAGE DEAL" COVERING BOTH CLAIMS/

GOLD AND MFN. HOWEVER, IN VIEW OF MY DOUBTS EXPRESSED TO STROUGAL ABOUT THE POSSIBILITY OF NEGOTIATING A "PACKAGE DEAL", I THINK STROUGAL'S STATEMENT TO ME THAT GOC FAVORS A "REALISTIC APPROACH" REFLECTS CZECHOSLOVAK READINESS, ALBIET RELUCTANTLY, TO SEPARATE THESE TWO ISSUES -- PROVIDED MFN IS DISCUSSED SERIOUSLY DURING CLAIMS NEGOTIATIONS AND CZECHOSLOVAKS RECEIVE SOME ASSURANCES OF BACKING BY SENATORS LONG AND GRAVEL IN GAINING MFN, UPON CONCLUSION OF TALKS ON A BILATERAL TRADE ACCORD.

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TO SECSTATE WASHDC 759

C O N F I D E N T I A L SECTION 2 OF 2 PRAGUE 2238

EXDIS

4. TIMING OF NEGOTIATIONS; IN GENERAL, WE THINK WE SHOULD BE PREPARED TO TAKE AS MUCH TIME AS NECESSARY TO WORK OUT A SETTLEMENT ADVANTAGEOUS TO US CLAIMANTS AND ACCEPTABLE TO THE SENATE FINANCE COMMITTEE. WE SEE NO REASON FOR MAJOR COMPROMISES ON OUR SIDE FOR THE SAKE OF SPEEDING A SETTLEMENT. AT THE SAME TIME, WE BELIEVE KEY INTERESTED PARTIES ON BOTH SIDES ARE PRESENTLY ANXIOUS TO MOVE TOWARD AN EARLY RESOLUTION OF THE CLAIMS/GOLD PROBLEM. STROUGAL SUGGESTED AS MUCH TO ME ON JULY 27 AND SPACIL HAS TAKEN SIMILAR LINE WITH SCOTT, WHILE SENATORS LONG AND GRAVEL HAVE STRESSED, IN WASHINGTON, THEIR DESIRE FOR A "PROMPT" SETTLEMENT. THUS, WE SUGGEST THAT OVNTH OF AUGUST BE DEVOTED TO PUTTING TOGETHER A FORMAL DEMARCHE ON REOPENING NEGOTIATIONS TO BE GIVEN CZECHOSLOVAKS AS EARLY AS POSSIBLE IN SEPTEMBER, AFTER THE SUMMER HOLIDAYS. DEPENDING ON GOC REACTIONS, WE MIGHT WANT TO INVITE SPACIL TO WASHINGTON THIS FALL FOR AN EXCHANGE OF VIEWS. ALTERNATIVELY, WE MIGHT CONSIDER A MEETING BETWEEN FOREIGN MINISTER CHNOUPEK AND THE SECRETARY ON THE FRINGES OF THE FORTHCOMING UNGA SESSION IN NEW YORK -- THOUGH THIS SEEMS INADVISABLE AT PRESENT.

IN ANY EVENT, AUTUMN 1976 APPEARS A PROPITIOUS TIME FOR A FORMAL REOPENING OF NEGOTIATIONS.

5. CONTINUING CONTACTS WITH SCOTT: WE BELIEVE OUR CONTACTS WITH SCOTT, AND THROUGH HIM, WITH MERRIGAN SHOULD CONTINUE UNTIL FORMAL NEGOTIATIONS ARE WELL UNDERWAY. WE THINK SCOTT HAS GONE ABOUT AS FAR AS CAN BE EXPECTED IN KEEPING EMBASSY INFORMED OF HIS SOUNDINGS WITH SPACIL AND SENATOR LONG, AND WE SHOULD RECIPROCATE. AS  
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TALKS SHIFT FROM INFORMAL TO OFFICIAL CHANNELS, WE SEE PRACTICAL ADVANTAGES IN KEEPING IN TOUCH WITH BOTH SCOTT AND MERRIGAN, ESPECIALLY TO FACILITATE OUR EFFORTS TO SHAPE A FINAL SETTLEMENT ACCEPTABLE TO THE SENATE. WITH REGARD TO THIS EFFORT, MERRIGAN HAS TOLD ME THAT SOLID PROGRESS TOWARD A SETTLEMENT CAN INDUCE EFFORTS ON HIS PART TO WITHDRAW THE CLAIMANTS' DISTRICT COURT CASE PRESENTLY UNDER APPEAL. WHILE I CANNOT BE ENTIRELY SURE OF HIS ABILITY TO WITHDRAW THE CASE, IT IS CLEAR THAT WE WILL NEED HIS COOPERATION IN REMOVING THIS ADDITIONAL OBSTACLE TO A FINAL SETTLEMENT OF THE CLAIMS/GOLD QUESTION.  
BYRNE

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